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National Association of Purchasing Management®

Report On Business®

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New Orders and Production Down Sharply

Index Lowest in 32 Months: 50.4%

Growth Rate Slows Further

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

March Report

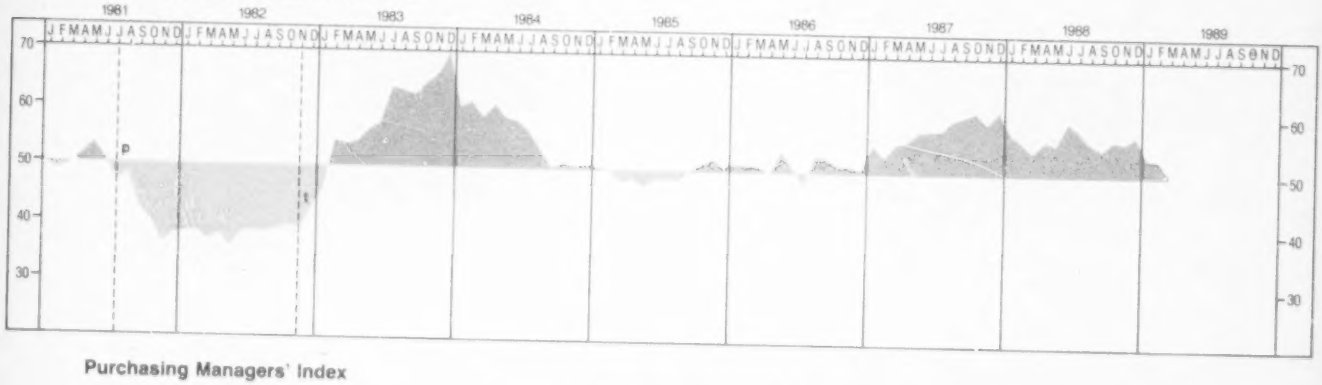
The economy continued to grow in March, but at a significantly slower pace than in the past two months, say the nation's purchasing executives in their latest ***Report On Business.*** The rate of **Production** growth slipped for the third consecutive month to its lowest since July 1986. The **New Order** growth rate decreased sharply and is at its lowest in almost four years. **Employment** continued to decline for the second consecutive month after eight previous months of increase.

New Export Orders continued to grow in March, but at a lower rate of growth for the fourth consecutive month. Of the 69.3% of members who export, 22% reported better export orders in March, while 9% reported worse, up considerably from 6% in February.

Vendor Deliveries were slower, but at the lowest rate of slowing in over two years. Furthermore, shortened lead times for **Production Materials** and a smaller list of commodities in short supply, confirmed the slowing growth in the economy. **Inventories** declined in March for the third consecutive month, although at a slightly lesser rate than in February. The rate of growth in price increases rose somewhat in March, but except for February, it is the lowest since May 1987.

The ***Report*** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "Despite reports to the contrary, purchasing executives continue to report a significantly slower growth in the economy. Virtually all indicators confirm the considerably subdued growth in the first quarter and signal even more modest growth into the second quarter."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index

January	57.3	September	54.7
February	55.7	October	56.2
March	54.0	November	55.9
April	56.0	December	57.3
May	55.5	January '89	53.2
June	59.2	February '89	53.0
July	57.9	March '89	50.4
August	55.7		

The **Purchasing Managers' Index** declined to 50.4% in March, markedly lower than 53.0% in February. Although this is the 32nd consecutive month the index has exceeded 50%, it is the lowest reading since July 1986 (48.0%). A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. The first quarter average is 52.2%, the lowest quarterly average since the fourth quarter of 1986 (51.0%). "Past experience indicates that, if this average were to continue for the remainder of 1989, it would be consistent with real GNP growth of about 2.5%," said Bretz.

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

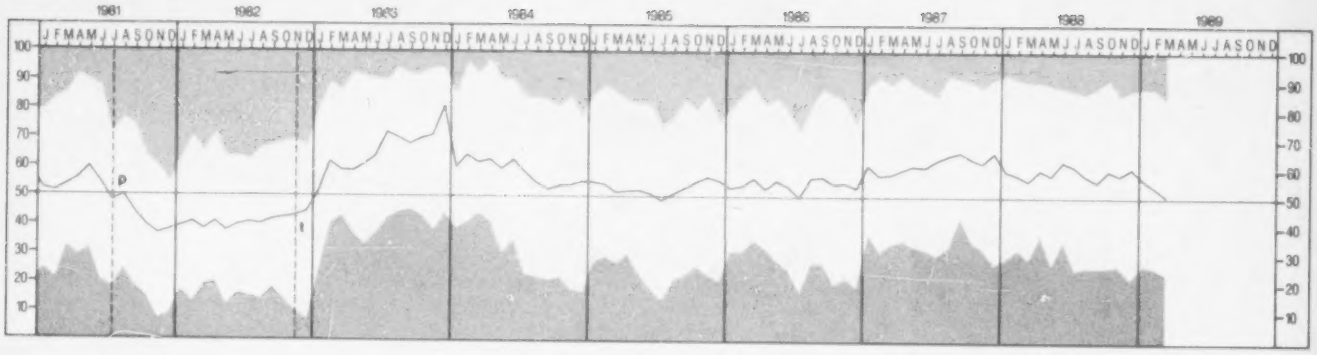
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

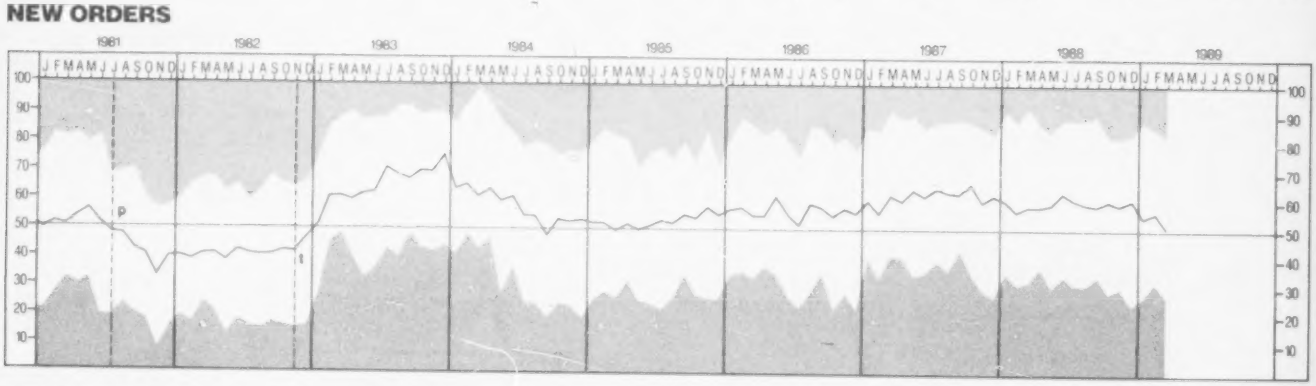
PRODUCTION



March registered the 32nd consecutive month of growth in Production. Although Production continued to grow in March, the Production index fell significantly to 50.7% from 53.7% last month which is the third consecutive decline. Moreover, the Production index at 50.7% is the lowest since July 1986 (49.3%).

Production	%Better	%Same	%Worse	Net	Index
March	24	60	16	+ 8	50.7
February	26	62	12	+14	53.7
January	27	61	12	+15	56.2
December	22	65	13	+ 9	60.0

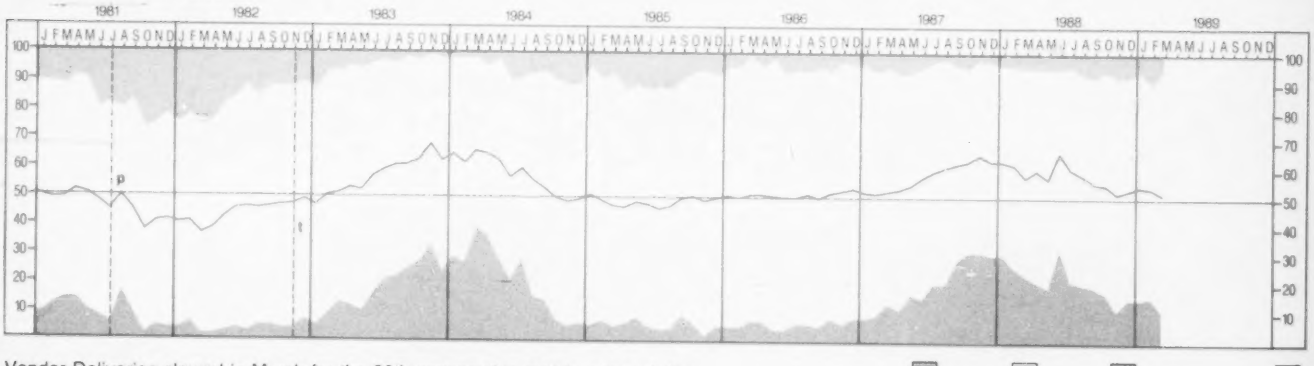
NEW ORDERS



New Orders increased in March for the 46th consecutive month. However, the rate of growth declined sharply as the New Orders index plunged to 50.9% from 55.9% in February, and is at its lowest since June 1985 (50.7%). The weak New Orders growth rate suggests an even slower economy as it enters the second quarter.

New Orders	%Better	%Same	%Worse	Net	Index
March	27	55	18	+ 9	50.9
February	32	53	15	+17	55.9
January	27	61	12	+15	54.5
December	24	59	17	+ 7	60.0

VENDOR DELIVERIES



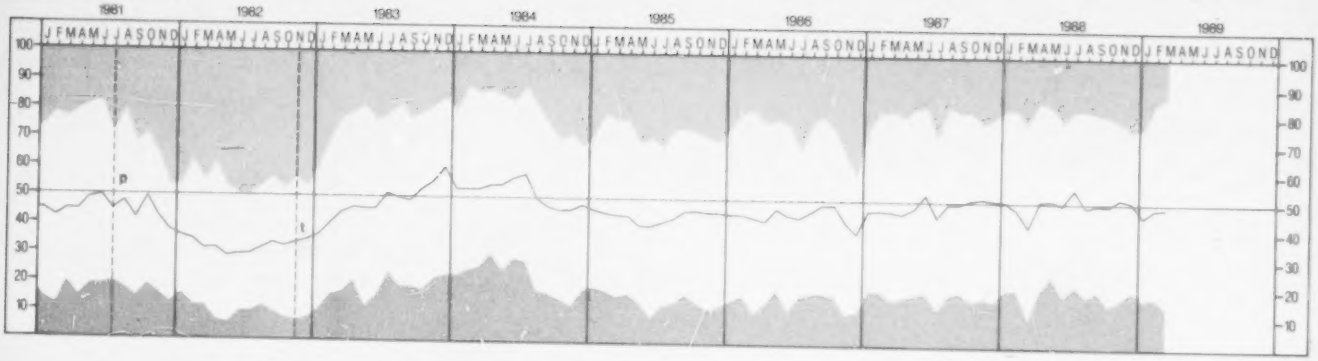
Vendor Deliveries slowed in March for the 30th consecutive month, although the rate of slowing lessened for the second consecutive month. More significantly, the Vendor Deliveries index has fallen to 51.2%, the lowest since February 1987 (also 51.2%). The number of commodities listed in short supply is also considerably fewer than in past months, with aluminum, copper and ethylene noticeably absent from the list. These are all indicators of a slowing economy.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
March	11	84	5	+ 6	51.2
February	16	74	10	+ 6	53.3
January	15	79	6	+ 9	54.0
December	15	77	8	+ 7	52.6

IN SHORT SUPPLY:

Palladium (used heavily in making alloys for bearings, springs and in precision instruments), **Steel** (21st time in 23 months), **Stainless Steel** (14th time in 15 months), **Castings** (4th time in 7 months), **Bleached Paperboard** (9th consecutive month), **Acrylic Acid** (8th time in 9 months; used in manufacturing plastics) **Caustic Soda/Soda Ash** (22nd consecutive month; used heavily in papermaking, petroleum refining and soap-making), **Ethylene Derivatives** (7th time in 10 months), **Phenol** (12th consecutive month; used heavily in making phenolic resins), **Sodium Chlorate** (used heavily in making dyes, explosives, matches and in dyeing and printing fabrics and paper), **Titanium Dioxide** (20th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper and other industrial applications), **Rayon** (5th consecutive month), **Polyester** (2nd consecutive month), **Bearings** (8th consecutive month; a consequence of anti-dumping suits), **Tomato Paste** (2nd consecutive month).

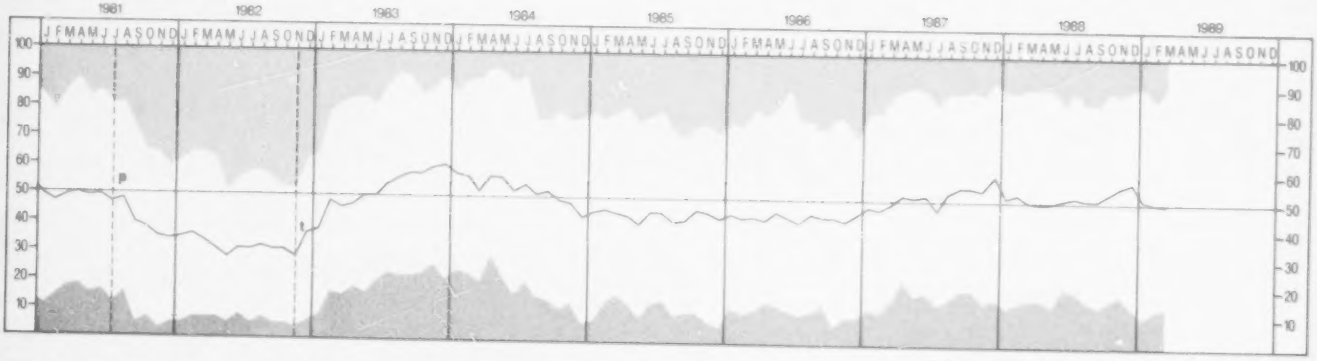
INVENTORIES



Inventories declined in March for the third consecutive month. The Inventories index at 48.6% was up slightly from 48.1% in February but confirms that manufacturers are not building inventories at a time of slowing economic growth.

Inventories	%Higher	%Same	%Lower	Net	Index
March	14	73	13	+1	48.6
February	18	67	15	+3	48.1
January	17	59	24	-7	45.5
December	20	55	25	-5	50.8

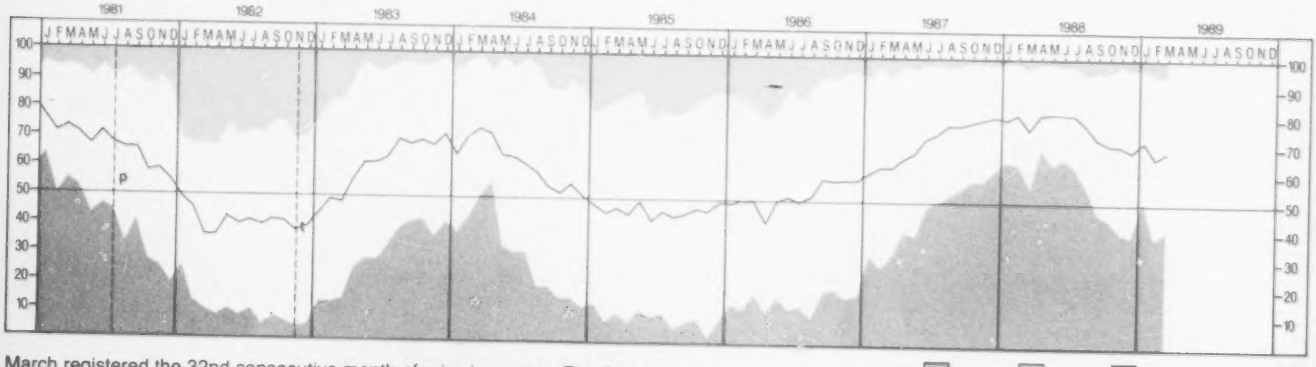
EMPLOYMENT



Employment continued to decline for the second consecutive month, after eight previous months of growth. The Employment index fell to 49.4% in March, slightly less than in February (49.7%). It is the lowest since May 1988 (also 49.4%) and is a reflection of the slowing economy.

Employment	%Higher	%Same	%Lower	Net	Index
March	14	76	10	+4	49.4
February	13	72	15	-2	49.7
January	10	80	10	0	50.5
December	14	75	11	+3	56.8

COMMODITY PRICES



March registered the 32nd consecutive month of price increases. The Price index rose slightly to 68.3% from 66.0% in February. Nevertheless, except for February, the price index at 68.3% is the lowest in 22 months and is still in an overall declining trend since mid-1988.

Prices	%Higher	%Same	%Lower	Net	Index
March	41	54	5	+36	68.3
February	38	57	5	+33	66.0
January	51	46	3	+48	71.6
December	39	58	3	+36	68.6

UP IN PRICE:

Brass (2nd time in 4 months), **Copper** (21st time in 25 months; some reports of price decreases), **Nickel** (10th time in 13 months; used heavily in making stainless steel, plating metals and batteries), **Steel** (30th time in 31 months), **Stainless Steel** (13th time in 16 months), **Zinc** (14th time in 15 months; used heavily in metal alloys and as a protective coating for metals), **Bearings** (8th time in 9 months), **Electric Motors** (1st time since August 1988), **Refractories** (used in making industrial furnaces), **Corrugated Shipping Containers** (1st time since December 1988), **Kraft Paper Linerboard** (considerable resistance noted; used in making corrugated shipping containers and bags), **Printing Paper** (24th time in 27 months), **Wood Pulp** (used in making all grades of paper and linerboard), **Plastic Products** (22nd time in 23 months), **Plastic Resins** (19th time in 20 months), **Glass, Caustic Soda/Soda Ash** (28th consecutive month; used heavily in paper-making, petroleum refining and soap-making), **Miscellaneous Chemicals** (2nd consecutive month), **Polyester** (4th consecutive month), **Fuel Oil** (4th consecutive month).

DOWN IN PRICE:

Formaldehyde (reported up in price in April 1988; used heavily in making phenolic resins and as a disinfectant, insecticide and fumigant), **Phenol** (reported up in price in February for 5th time in 8 months; used heavily in making phenolic resins), **Methyl Ethyl Ketone (MEK)** (reported in short supply in November 1988; used heavily as a chemical solvent in surface coatings and in making resins), **Styrene** (2nd consecutive month; used chiefly in making synthetic rubber, plastic resin and plastic), **Polypropylene** (2nd consecutive month; used heavily in making packaging materials and paper coatings), **Natural Gas** (reported up in price in January for 4th time in 5 months), **Menthol** (reported up in price in February and December; used heavily in making confectionaries, liquers, cigarettes, perfume and cough drops), **Orange Juice** (2nd consecutive month).

BUYING POLICY

Lead times for Capital Expenditures were virtually unchanged from last month. Members reporting lead times in the meaningful 6 months and longer category for Capital Expenditures increased slightly to 54% from 53% in February but still less than in January (57%) and December (56%). However, lead times for Production Materials shortened as the number of members reporting lead times of 60 days or less increased to 80%, up from 76% in February. This mirrors the easing in availability noted in Vendor Deliveries. Lead times for Maintenance, Repair and Operating (MRO) Supplies also decreased, as the number of members reporting lead times of 30 days and less increased to 87%, up from 84% in February, and the most since May 1988 (also 87%).

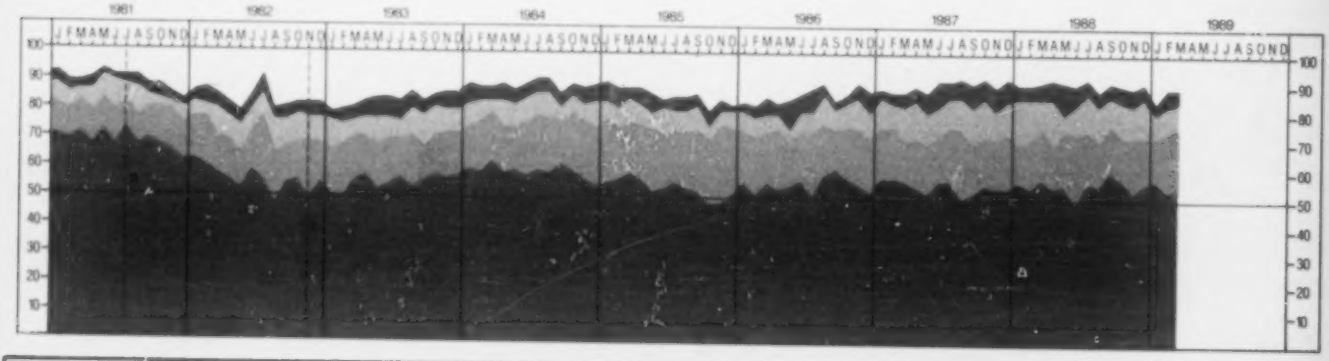
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
March	11	5	9	21	54
February	11	6	9	21	53
January	16	4	8	15	57
December	9	5	14	16	56

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
March	15	37	28	14	6
February	12	39	25	16	8
January	16	37	31	11	5
December	15	33	30	15	6

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
March	41	46	12	1	0
February	42	42	13	2	1
January	38	47	11	3	1
December	34	48	13	4	1

CAPITAL EXPENDITURES



Commodity Report
March, 1989

TEXTILES

Prepared by the NAPM Textile Committee. Chair: Gerry R. Korver, C.P.M., K-Products Inc., Orange City, Iowa.

COTTON, POLYESTER, GREIGE GOODS: The reduction of 240 million pounds of polyester staple by Eastman Chemical has created shortages, allocations with substantial price increases. The 7 cent hike in January, 1989, will be followed by a planned increase in second or third quarter. Current supply problems will likely continue for the next eighteen months to two years. Cotton prices are in the high 50's to low 60's in spite of this year's carry over. Farmers putting crops into the government loan program has affected prices via a contrived shortage. U.S. cotton is non-competitive on the world market by 9–12 cents per pound affecting our ability to export. Acrylic yarn is up 10 cents per pound; rayon is up 10% and also in short supply.

NYLON AND SPECIALTY FABRICS: Up in price is DuPont Lycra spandex by 5–9% depending on denier, the DuPont and BASF nylons by 5–10%. Both fibers should be firm through 1989. Macfield, the only major nylon texturizer, increased prices by 15 cents in early 1989. Speciality fabrics have also been affected. Lead times could be very extended and the price increases will relate primarily to fibers rather than increased manufacturing costs.

CONVERTING: Lead time is approximately 4–6 weeks with price increases of up to 10% to offset the rising cost for dye stuffs and chemicals.

NON-FERROUS METALS: Prepared by the NAPM Non-Ferrous Metals Committee. Chair: Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, MI.

ALUMINUM: U.S. operating rate is sustaining at 102% of rated capacity. Total world-wide production is near 100%. In 1989 the aluminum market will return to a characteristic slow growth in demand — 2% vs. 3½% in 1988. Significant orders are booked in the aircraft and automotive industries. Beverage cans grew 7% in 1988 and expect another 5% gain in 1989. In construction, aluminum will lose nearly 9% to substitute materials. Total exports, which rose 36% in 1988, are expected to gain another 15% this year. Semi-finished exports will rise by 25%, vs. a 31% increase in 1988. The industry has become more competitive and the dollar has continued to weaken; positive trends for export growth. In summary, supply and demand will remain tight, consumption will rise slightly, and inventories will remain low.

MAGNESIUM: There is a continuing reduction in magnesium inventories, which began in 1986, with current stocks at a 1.3 month supply. Production is not compensating for shipments. The International Magnesium Association has produced proceedings of a seminar on product and market developments, and advanced magnesium materials, plus a cassette, "Magnesium in Automotive Applications." For more information, call (703) 442-8888.

NICKEL: Demand is still exceeding supply; but it appears demand and prices may be reduced the second half of this year if interest rates continue to climb and if there is a decline in productivity. The current swing is $8.46–$9.80/lb., sometimes increasing or decreasing 20 cents per day. Expect supply and demand for 1989 similar to 1988 with prices $8.00–9.00/lb. for the first half. Current inventories are down; no new production in the near term. There is a need to control inventories to minimize the "up side" cost impact.

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The next issue of *REPORT ON BUSINESS* will be available May 1, 1989.